



Financial Statements

December 31, 2012 and 2011

Mountain Regional Water Special Service District

A Component Unit of Summit County, Utah

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
Table of Contents
December 31, 2012 and 2011

Independent Auditor’s Report	1
Management’s Discussion and Analysis	3
Financial Statements	
Statement of Net Position	24
Statements of Revenues, Expenses and Changes in Net Position	26
Statements of Cash Flows	27
Notes to Financial Statements	29
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	42
Independent Auditor’s Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133	44
Schedule of Expenditures of Federal Awards	46
Notes to Schedule of Expenditures of Federal Awards	47
Schedule of Prior Audit Findings and Questioned Costs	48
Independent Auditor’s Report on Compliance in Accordance with the State of Utah Legal Compliance Audit Guide	50



CPA & BUSINESS ADVISORS

Independent Auditor's Report

The Administrative Control Board
Mountain Regional Water Special Service District
Park City, Utah

Report on the Financial Statements

We have audited the accompanying financial statements of Mountain Regional Water Special Service District (the District) which comprise the statement of net position as of December 31, 2012 and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective net position of Mountain Regional Water Special Service District as of December 31, 2012, and the changes in its net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

The financial statements of Mountain Regional Water Special Service District as of and for the year ended December 31, 2011, were audited by Schmitt, Griffiths, Smith & Co., who joined Eide Bailly LLP on November 1, 2012, and whose report dated May 3, 2012, expressed an unmodified opinion on those statements.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 - 23 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods or preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Mountain Regional Water Special Service District's financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular *A-133, Audits of States, Local Governments, and Non-Profit Organization*, and is also not a required part of the financial statements.

The schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 6, 2013, on our consideration of Mountain Regional Water Special Service District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance.



Ogden, Utah
June 6, 2013

Overview of Basic Financial Statements

This section of the Mountain Regional Water Special Service District of Summit County (District) report serves as an introduction to its basic financial statements for the year ended December 31, 2012 and presents management's discussion and analysis of its financial condition.

Please read this in conjunction with the District's basic financial statements, which follow this section. The financial statements comprise two components: 1) its enterprise fund financial statements, and 2) notes to the basic financial statements. These statements include all District activities.

Component Unit Financial Statements

The District operates as an enterprise fund and is a component unit of Summit County, Utah. Enterprise funds account for operations that are financed and operated in a manner similar to a private business where the intent of the governing body is that the costs of providing goods and services be financed or recovered primarily through user charges. The District is financed primarily through water sales, service fees, and impact fees. It does not impose any taxes.

Notes to Financial Statements

The notes provide additional information essential to a full understanding of the data provided in the financial statements. The notes are a part of the basic financial statements.

Economic Trends

General

The District was created in 2000 by the Summit County Commission (now Council) to regionalize water service in Snyderville Basin by consolidating several water companies, both public and private, that were failing both operationally and financially.

The District covers an area of 39.3 square miles within in the unincorporated areas of the Snyderville Basin area surrounding Park City, the Promontory development and the Colony mountain development near Park City. The District maintains a centralized, regional water system that currently serves 3,129 customers. Based upon actual water usage however, the District provides water for 7,838 equivalent residential connections (ERCs), as it provides water for two golf courses and wheels wholesale water through its water system to other water companies. In addition, 1,865 undeveloped lots exist within the District's boundaries that have a water system installed in a ready-to-serve state for which a standby fee is assessed.

The area served by the District has three world-renowned ski resorts within five miles of each other: Park City Mountain, Deer Valley, and The Canyons. The Sundance Film Festival is held in the area each winter.

Summer activity is growing in the area, including arts festivals, concerts, sporting events, along with a variety of other activities. There are several upscale gated communities served by the District, two of which have golf courses.

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
Management's Discussion and Analysis
December 31, 2012 and 2011

Major employer data is not available for the District, although a variety of employers exist. This includes accommodation and food service, recreation, retail trade, technical service, industrial, and government. The unemployment rate in the area is generally lower than for the rest of Utah and the nation.

Population and Income Trends

The District experienced fast population growth from 2000 to 2008, when it slowed due to the Great Recession. However, income levels within the District remain strong, and are well above national averages.

Mountain Regional Water Special Service District's Population & Income Trends

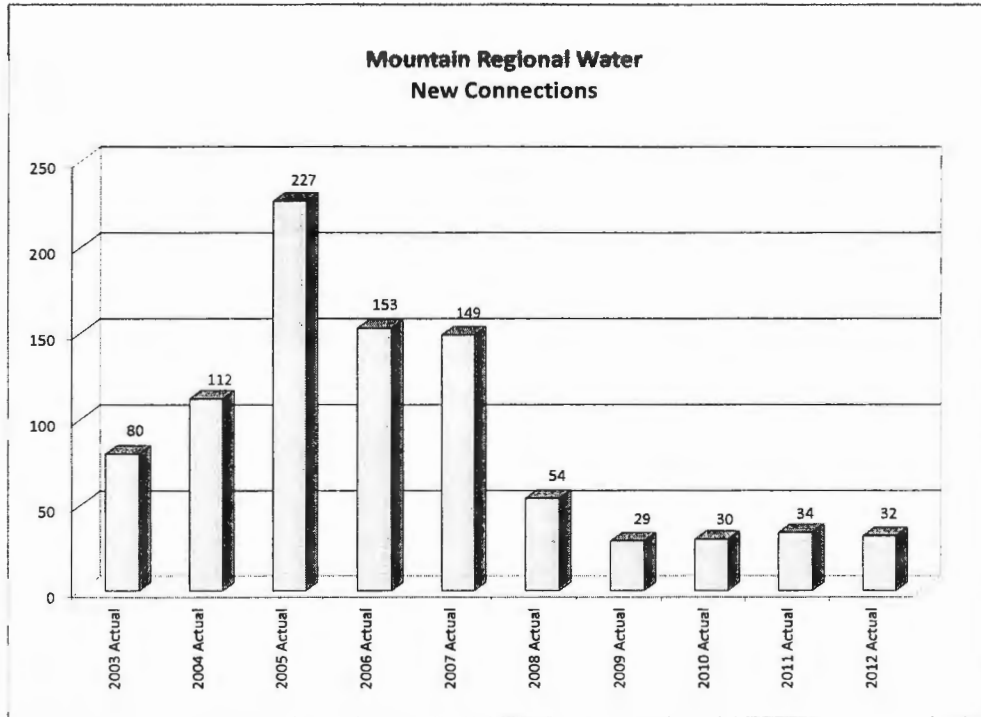
	2000	2010	2012 (estimated)	2015 (estimated)
Population	4,334	6,273	6,598	7,086
Households	1,563	2,260	2,382	2,564
Median Household Income	\$ 79,524	\$ 98,068	\$ 104,192	113,378
Average Household Income	\$ 105,893	\$ 123,253	\$ 132,676	146,811

Source: esri Demographic and Income Profile for Mountain Regional Water Special SSD

The population and income amounts shown above exclude the owners of second homes. These second homeowners tend to have much higher income levels than individuals living within the District on a full-time basis.

Building Activity

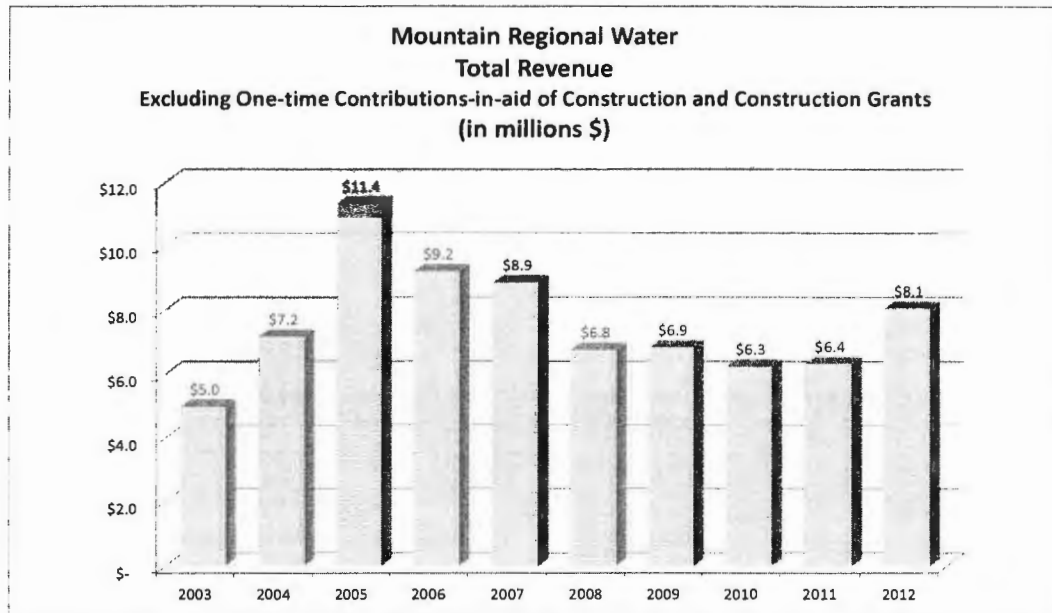
Building activity, measured by new water connections, has trended similar to the population growth within the District the past ten years, as shown below.



Water connections for new building units have ranged from 29 to 34 following the housing crisis that began in late 2008. New connections ranged from 112 to 227 between 2004 and 2007.

Revenue Trends

As shown below, the District experienced a sharp decline in total revenue (excluding one-time contributions-in-aid of construction and construction grants) from 2008 to 2011; as the 2008 economic downturn led to a significant drop in building related revenue; and record cool wet weather from 2009 to 2011 reduced water sales.



However, this trend reversed in 2012 as the rate increases discussed above, combined with hot dry weather, led to a 29.7% increase in water sales.

The increase in water sales included additional revenue generated from wheeling more raw water to Park City through the District's system in 2012. Wheeling fee collections totaled \$448,276 in 2012, compared to \$218,887 for 2011. Park City started wheeling its full capacity rights for the first time in 2012, as its new treatment plant went online. Thus, the increase in wheeling fees will be permanent; while Lost Canyon operating expenses, particularly power, will also be higher.

In addition, the District received a \$190,676 insurance settlement negotiated by the Council and the District's liability insurer regarding the coverage related to a lawsuit.

Building related revenue for 2012 including impact fees, SID assessments, and connection fees was similar to the past few years; as the building economy remained slow.

Relevant Financial Policies

The District updates its five year financial plan annually in order to address financial issues before they become problems. This, along with the creation of rate stabilization reserves, helps the District stabilize rates and charges; despite potential revenue fluctuations in building related revenue and the impact of weather on water sales.

The District utilizes zero-based budgeting, allowing the District to fund programs based upon current needs and priorities.

The District periodically reviews its capital facilities plan and impact fee structure. A detail review is currently underway.

Financial Highlights

Change in Net Position

In 2012, the District's change in net position was \$759,021; the first time since 2007 that the District generated an increase in net position from ongoing operations (i.e. before one-time contributions-in-aid of construction and construction grants are included). The improvement in change in net position in 2012 was driven by rate increases; higher summer water sales due to hot dry weather; and interest expense savings generated from refinancing existing District debt with new debt with lower interest rates.

Despite the negative change in net position from ongoing operations each year from 2008 to 2011, the District still generated enough cash from its ongoing operations to meet its 1.25 coverage ratio and make all debt payments in each of those years, as the negative change in net position was driven by high non-cash depreciation expense.

In 2011, the District conducted a study and determined it was depreciating its assets over a much shorter time period than other Utah water utilities. Thus, the District increased the length of time it depreciates assets, leading to an estimated \$300,000 or 20.0% decline in annual depreciation expense. This helped improve net position from 2011 moving forward.

Rate Increases

The economic downturn and cool wet weather between 2008 and 2011 - combined with the increasing debt service, treatment, and electrical costs forecast over the next few years - necessitated the rate increases adopted by the Council in August 2011. The rate increases included a 7.0% across-the-board increase in both August 2011 and August 2012, along with increased elevation surcharges totaling 3.0%.

2012 Bond Refunding

The District refinanced its Series 2003 revenue bonds in 2012 to take advantage of historic low interest rates, and its improved bond rating of "A+/AA-". This compares to a "BBB" rating when the Series 2003 bonds were issued.

To do this refinancing, the District issued \$27.27 million in new Series 2012 refunding bonds with a true interest cost of 3.55%. The bond proceeds, combined with a portion of the Series 2003 debt reserve of \$2.95 million, were used to pay off \$29.89 million in Series 2003 bonds that had remaining annual interest rates between 4.5% and 5.0%.

The Series 2012 bonds did not require a debt reserve due to the District's improved bond rating and establishment of a \$1.0 million rate stabilization fund.

This refinancing resulted in a \$193,100 reduction in 2012 interest expense. However, lost 2012 interest earnings on the Series 2003 debt reserve resulted in total net savings of about \$130,000.

The 2012 refinancing will provide the District with \$250,000 in net annual savings the next few years. This includes roughly \$385,000 in annual interest expense savings over the next five years that will be partially offset by a \$135,000 reduction in interest earned on the Series 2003 debt reserves.

The Series 2012 bonds also generated a one-time \$747,000 cash infusion that was used to prepay \$200,000 of the \$500,000 Summit County loan in 2012, and the remaining amount was prepaid in January 2013. The remaining \$247,000 cash infusion was deposited into the rate stabilization fund.

Debt Coverage Ratio

Bond covenants require the District to set rates, fees, and ongoing expenditures such that once all other operational costs are paid each year, the amount left to pay debt service is 1.25 times the scheduled parity debt payments.

This helps ensure bond holders will be paid if unanticipated expenditures are paid or revenue falls short of projections. Capital expenditures paid from non-operational sources of cash (such as bonds, grants, or previous years' reserves) are not included in the debt coverage calculation.

As shown below, the District's debt coverage ratio from current year operations improved to 2.06 in 2012 as rate increases and hot dry weather led to a 29.7% increase in water sales, and the 2012 bond refunding, along with other debt restructuring, reduced parity principal and interest payments by \$354,663 or 16.9% between 2011 and 2012.

The District's ratio for 2011 was 1.26. In July 2011, the District recognized a pending revenue shortfall due to cool wet weather. To address this, the Council adopted a series of rate increases. It is estimated the rate increases led to an additional \$200,000 in revenue for 2011. Rate increases were adopted as the District had already made mid-year budget cuts the two prior years.

The District also created a rate stabilization fund (discussed below) to help address future debt coverage.

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
Management's Discussion and Analysis
December 31, 2012 and 2011

Mountain Regional Water Special Service District's Debt Service Coverage Ratio

	2012	2011	2010
Water sales	\$ 6,873,147	\$ 5,297,520	\$ 5,205,683
Operating fees	153,805	151,616	143,883
Impact fees	196,067	242,285	241,308
SID assessments	499,397	453,020	454,057
Interest available for debt service	101,983	152,710	160,440
Other non-restricted cash revenue	258,786	53,402	79,780
Total cash available for debt service from current year operations	<u>8,083,185</u>	<u>6,350,553</u>	<u>6,285,151</u>
Current year cash operating expenses	<u>(4,506,355)</u>	<u>(3,713,304)</u>	<u>(3,554,292)</u>
Net cash available for debt service payments from current year operations	<u>3,576,830</u>	<u>2,637,249</u>	<u>2,730,859</u>
Current year parity debt service payments	<u>1,738,225</u>	<u>2,092,888</u>	<u>2,183,835</u>
Debt service coverage from current year operations	<u>2.06</u>	<u>1.26</u>	<u>1.25</u>
Net cash available for debt service payments from current year operations	3,576,830	2,637,249	2,730,859
Rate stabilization fund balance	1,021,217	416,874	-
Total cash available for debt service payments	<u>4,598,047</u>	<u>3,054,123</u>	<u>2,730,859</u>
Debt service coverage with Rate Stabilization fund	<u>2.65</u>	<u>1.46</u>	<u>1.25</u>

Rate Stabilization Fund

In 2011, the District amended its revenue bond General Indenture of Trust to establish a rate stabilization fund. It was established to help the District better deal with cyclical development related revenue, prepayment of assessments, treatment plant costs that vary dramatically from year to year, and the impact of weather on water sales.

Annual water sales can vary as much as \$600,000 to \$800,000 between a very cool wet summer and a very hot dry summer. The District does not rely on hot dry weather and a strong building economy when it establishes its rates, fees and charges sufficient to meet the required 1.25 coverage requirement.

The amendment to the indenture allows the District to include the rate stabilization fund balance in its debt coverage calculation. When the \$1.02 million balance is included, the 2012 coverage ratio improves to 2.65 - as shown above. The ratio should decline over the next two years as debt service payments and power costs increase, but coverage should remain above 1.25.

For 2011, the coverage ratio improves to 1.46 when the rate stabilization fund is included.

It is District's practice to budget for 1.25 debt coverage without including the rate stabilization fund with two exceptions. First, if carbon and/or a large number of membranes need to be purchased for the treatment plant in a given year; or second, if special assessments are collected ahead of schedule.

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
Management's Discussion and Analysis
December 31, 2012 and 2011

The rate stabilization fund includes a new reserve established by the District to address the cyclical nature of treatment plant operating costs year to year. For example, the plant uses carbon to treat water, and this carbon is purchased every two to three years.

In addition, treatment plant membranes are an expendable component of treatment equipment. Each membrane lasts eight to twelve years, but the exact date of failure is unknown. In some years, the District may purchase only a few membranes, while in others it might purchase membranes in large quantities. The treatment plant utilizes 152 membranes. The year-end 2012 reserve fund balance for treatment plant operations is \$1,045 - as the District acquired 38 membranes for a new treatment skid in 2012, and replaced 104 worn out membranes as well.

The rate stabilization fund also includes special assessment reserves dedicated fully to future debt payments on revenue bonds. Over the life of each bond, the amount of assessments collected from lot owners is roughly equal to the debt payments. If assessments are prepaid by lot owners in excess of what is needed to make related debt payments in any given year; the remaining collections must be put into reserve for future debt payments; as less assessment revenue will be collected in those years. The majority of the District's bonds are currently not callable; otherwise the reserves would be used to prepay the related debt.

Cash Flow

After falling to what a bond rating agency referred to in 2010 as barely adequate unrestricted cash and reserves the District's cash and reserves increased closer to levels set by policy in 2012.

**Mountain Regional Water Special Service District's Cash Summary
(Book Value)**

	2012	2011	2010	\$ Change 2012 to 2011	% Change 2012 to 2011
Unrestricted cash and reserves held by district					
Operating cash and reserves	\$ 2,020,186	\$ 1,380,202	\$ 1,109,207	\$ 639,984	46.4 %
Rate stabilization fund for debt service	1,021,217	416,874	-	604,343	145.0
Rate stabilization fund for treatment plant	1,045	-	-	1,045	n/a
Other unrestricted reserves	6,245	48,565	447,288	(42,320)	(87.1)
Total cash and operating reserves held by the District	<u>3,048,693</u>	<u>1,845,641</u>	<u>1,556,495</u>	<u>1,203,052</u>	<u>65.2</u>
Cash restricted for debt payments					
Held by trustee	370,445	323,197	224,658	47,248	14.6
Held by district	346,013	269,513	266,125	76,500	28.4
Total cash restricted for debt payments	<u>716,458</u>	<u>592,710</u>	<u>490,783</u>	<u>123,748</u>	<u>20.0</u>
Other restricted cash					
Impact fees	700,442	729,904	697,418	(29,462)	(4.0)
Capital facilities construction, repair & replacement reserves	303,614	97,135	79,466	206,479	212.6
IRS rebate	275,307	-	-	275,307	n/a
Customer deposits	181,000	177,813	175,950	3,187	1.8
Bond construction funds	6,588	1,037	43,898	5,551	535.3
Total other restricted cash	<u>1,466,951</u>	<u>1,005,889</u>	<u>996,732</u>	<u>461,062</u>	<u>45.8</u>
Total cash	<u><u>\$ 5,232,102</u></u>	<u><u>\$ 3,444,240</u></u>	<u><u>\$ 3,046,010</u></u>	<u><u>\$ 1,787,862</u></u>	<u><u>51.9 %</u></u>

Total cash, excluding debt reserves funded with bond proceeds, increased 51.9% in 2012, from \$3.44 million to \$5.23 million.

As discussed above, the Series 2003 bonds were refunded in 2012, and the new Series 2012 bonds did not require a debt reserve. This provided the opportunity for the District to use the existing Series 2003 bonds debt reserve of \$2.95 million to reduce the par amount of the new Series 2012 bonds. As such, debt reserves funded with bond proceeds fell to zero in 2012, from \$2.95 million in 2011.

In 2012, unrestricted cash and reserves increased 65.2% to \$3.05 million. Hot dry weather, rate increases, and debt restructuring contributed to this increase. This allowed the rate stabilization fund for debt service to be increased from \$416,874 to \$1.02 million in 2012.

A new District policy adopted in 2012 requires the minimum balance in this fund to be \$1.0 million. This fund can only be drawn upon to make parity debt payments in years insufficient cash is generated from ongoing operations. If the balance drops below \$1.0 million to make such debt payments, the District has three years to replenish it back to its minimum level.

The District amended its policies in 2012 to set a target of having at least 120 days of operating cash and reserves on hand, based upon its current year cash operating expenses. The current reserve target is \$1.58 million; compared to the \$2.02 million actual year-end balance.

Although year-end 2012 unrestricted cash and reserves exceeded this target by \$440,164, the District was not able to transfer these funds to the capital facilities construction, repair & replacement reserves, as the District has negative cash flow the first few months of each year, until summer water sales provide increased cash flow.

The District has a goal of maintaining \$1.0 million in its capital facilities repair & replacement reserves. At year-end 2012, the total amount in these funds was \$303,614. Since all other reserves are now at policy levels, future cash increases will likely be deposited into these reserves.

Total cash increased \$400,230 during 2011, led by a \$416,874 increase in the rate stabilization fund; as the District took out a three-year \$500,000 loan from Summit County to provide additional cash reserves until rate increases effective in August 2011 and 2012 were in full effect. This loan was paid off in January 2013. The year-end 2011 total cash balance also benefitted from an estimated \$200,000 in additional revenue generated from the August 2011 rate increases.

District Financial Analysis

Net Position

An entity's net position (i.e. total assets plus deferred outflows, less total liabilities and deferred inflows) may serve over time as a useful indicator of a government's financial condition, as shown below:

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
Management's Discussion and Analysis
December 31, 2012 and 2011

Mountain Regional Water Special Service District's Change in Net Position

	2012	2011	2010	\$ Change 2012 to 2011	% Change 2012 to 2011
Operating revenue	\$ 7,263,174	\$ 5,497,415	\$ 5,421,740	\$ 1,765,759	32.1 %
Operating expenses	(5,918,466)	(5,072,938)	(5,222,679)	(845,528)	16.7
Operating income (loss)	<u>1,344,708</u>	<u>424,477</u>	<u>199,061</u>	<u>920,231</u>	<u>216.8</u>
Non-operating revenue	832,371	865,259	2,188,027	(32,888)	(3.8)
Non-operating expense	(1,787,735)	(1,989,066)	(1,941,310)	201,331	(10.1)
Income (loss) before operating transfers	<u>389,344</u>	<u>(699,330)</u>	<u>445,778</u>	<u>1,088,674</u>	<u>(155.7)</u>
Transfers and contributions to (from) district	<u>369,677</u>	<u>2,075,743</u>	<u>178,825</u>	<u>(1,706,066)</u>	<u>(82.2)</u>
Change in net position	759,021	1,376,413	624,603	(617,392)	(44.9)
Net position - beginning	<u>39,144,668</u>	<u>37,768,255</u>	<u>37,143,652</u>	<u>1,376,413</u>	<u>3.6</u>
Net position - ending	<u>\$ 39,903,689</u>	<u>\$ 39,144,668</u>	<u>\$ 37,768,255</u>	<u>\$ 759,021</u>	<u>1.9 %</u>

The District's net position increased \$759,021 to \$39.9 million in 2012. This positive change was generated by higher water sales due to both hot dry weather; rate increases; and debt restructuring that led to lower debt payments.

After one-time contributions-in-aid of construction and capital grants are excluded, the District experienced an increase in net position from ongoing operations in 2012 for the first time since 2007. The improvement in 2012 net position was largely the result of rate increases, hot dry weather, and debt restructuring.

Despite the negative change in net position from ongoing operations each year from 2008 to 2011, the District generated enough cash from its ongoing operations to meet its 1.25 coverage ratio and make all debt payments in each of those years, as the negative change in net position was driven by high non-cash depreciation expense.

The District conducted a study in 2011 and determined it was depreciating its assets over much shorter time period than other Utah water utilities. As such, the District increased the length of time it depreciates assets, resulting in an estimated \$300,000 or 20% decline in annual depreciation expense. This contributed to the improvement in net position from 2011 moving forward.

The District's net position increased by \$1.38 million in 2011, bringing the year-end balance for that year to \$39.14 million. One-time contributions-in-aid of construction from developers for water rights and subdivision infrastructure led to this increase. Without these contributions, District net position would have declined by \$699,330 in 2011 due to declining revenue.

The District's net position is segregated into four categories to provide more insight into its financial condition, as shown below.

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
Management's Discussion and Analysis
December 31, 2012 and 2011

This allocation of the District's net position reflects its aggressive capital projects program over the past decade to address water shortage and quality problems in Snyderville Basin; and to address the rapid customer growth during the building boom. These capital assets were funded roughly two-thirds from the issuance of debt, and one-third from contributions-in-aid of construction.

As such, District capital assets account for \$77.47 million or 91.6% of its total assets; long-term liabilities (debt) account for \$42.08 million or 94.2% of total liabilities; and net investment in capital assets account for \$35.63 million or 89.3% of total net position.

Net investment in capital assets measures the book value of an entity's fixed assets such as land, water system infrastructure, equipment, and water rights; less accumulated depreciation and the remaining debt outstanding used to acquire or construct those assets.

Mountain Regional Water Special Service District's Net Position

	2012	2011	2010	\$ Change 2012 to 2011	% Change 2012 to 2011
Unrestricted current assets	\$ 4,927,220	\$ 3,321,188	\$ 3,569,128	\$ 1,606,032	48.4 %
Capital assets	77,470,791	77,574,473	75,229,945	(103,682)	(0.1)
Other assets	2,183,410	1,598,599	1,487,515	584,811	36.6
Total assets	<u>84,581,421</u>	<u>82,494,260</u>	<u>80,286,588</u>	<u>2,087,161</u>	<u>2.5</u>
Deferred outflow of resources	-	-	-	-	-
Total deferred outflow	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Unrestricted current liabilities	912,137	708,434	719,118	203,703	28.8
Long-term liabilities	42,084,662	42,269,572	41,313,435	(184,910)	(0.4)
Other liabilities	1,680,933	371,586	485,780	1,309,347	352.4
Total liabilities	<u>44,677,732</u>	<u>43,349,592</u>	<u>42,518,333</u>	<u>1,328,140</u>	<u>3.1</u>
Deferred inflow of resources	-	-	-	-	-
Total deferred inflow	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net position					
Net investment in capital assets	35,633,561	36,586,372	35,111,256	(952,811)	(2.6)
Restricted	1,140,710	746,752	973,747	393,958	52.8
Unrestricted	3,129,418	1,811,544	1,683,252	1,317,874	72.7
Total net position	<u>\$ 39,903,689</u>	<u>\$ 39,144,668</u>	<u>\$ 37,768,255</u>	<u>\$ 759,021</u>	<u>1.9 %</u>

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
Management's Discussion and Analysis
December 31, 2012 and 2011

Net investment declined \$952,811 in 2012 largely due to a \$849,130 increase in net debt outstanding in 2012. Net investment during 2011 increased \$1.48 million or 4.2% due to additions in net fixed assets that was partially offset by a smaller increase in debt outstanding. A net increase of \$2.34 million in fixed assets included the installation of pretreatment and pumping equipment, and the contribution of water rights and subdivision infrastructure from developers. Meanwhile, debt outstanding declined \$849,130 due to debt payments and prepayments.

Restricted net position includes restricted cash accounts less liabilities that will be paid from future restricted revenue collections. In 2012, restricted net position increased \$393,958; mostly due to \$275,307 that was deposited into a restricted cash account that will be used to pay an IRS arbitrage rebate liability in 2013.

Between 2011 and 2010 restricted net position declined \$226,995; as debt reserves increased \$101,297 and prepaid expenses declined \$363,790.

Unrestricted net position increased by \$1.32 million or 72.7% in 2012, to \$3.13 million. This increase is attributable to the improved unrestricted cash position generated by rate increases, higher water sales due to hot dry weather, and reduced interest payments resulting from debt restructuring.

Unrestricted net position increased \$128,292 in 2011 – a minor change.

Dividing the District's unrestricted current assets by its unrestricted current liabilities demonstrates its ability to meet its following year's obligations. This ratio has ranged between 4.69 and 5.40 the past three years.

Summary of Revenue

As shown below, District revenue increased \$1.73 million in 2012, led by higher water sales and other operating revenue. Non-operating revenue remained flat between 2011 and 2012.

Four factors contributed to the 27.2% increase in 2012 revenue. First, a hot dry summer led to a significant increase in the quantity of water sold.

Second, revenue generated from wheeling raw water to Park City through the District's Lost Canyon system totaled \$448,276 in 2012, compared to \$218,887 for 2011. Beginning in 2012, Park City started wheeling its full capacity rights for the first time, as its new treatment plant went online. As such, this increase in wheeling fee collections will be permanent; although Lost Canyon operating expenses, including power costs, for 2012 and moving forward will be higher as well.

Third, the District received a \$190,676 insurance settlement negotiated by the Council and the District's liability insurer regarding the coverage related to a lawsuit. The payment is included in other operating revenue.

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
Management's Discussion and Analysis
December 31, 2012 and 2011

Fourth, the Council adopted the following rate increases:

August 1, 2011

Across-the-Board	7.0%
Elevation Surcharge Increase per 1,000 Gallons	
Colony	\$0.79
Summit Park / Sun Peak	0.54
Redhawk / Stagecoach	1.26

August 1, 2012

Across-the-Board	7.0%
Elevation Surcharge Increase per 1,000 Gallons	
Colony	\$0.15
Summit Park / Sun Peak	0.03
Redhawk / Stagecoach	0.08

In 2012, building related revenue including impact fees, SID assessments, and connection fees was similar to the past few years; as the building economy remained slow.

Mountain Regional Water Special Service District's Revenue Summary

	2012	2011	2010	\$ Change 2012 to 2011	% Change 2012 to 2011
Operating					
Water sales	\$ 6,873,147	\$ 5,297,520	\$ 5,205,683	\$ 1,575,627	29.7 %
Operating fees	153,805	151,616	143,883	2,189	1.4
Other	236,222	48,279	72,174	187,943	389.3
Total operating	7,263,174	5,497,415	5,421,740	1,765,759	32.1
Non-operating					
State grants	11,667	11,667	1,324,167	-	
Interest income	102,676	153,164	160,889	(50,488)	(33.0)
Impact fees	196,067	242,285	241,308	(46,218)	(19.1)
SID assessments	499,397	453,020	454,057	46,377	10.2
Gain on sale of assets	16,952	3,398	-	13,554	398.9
Other non-operating revenue	5,612	1,725	7,606	3,887	225.3
Total non-operating	832,371	865,259	2,188,027	(32,888)	(3.8)
Total revenue	\$ 8,095,545	\$ 6,362,674	\$ 7,609,767	\$ 1,732,871	27.2 %

Total revenue decreased by \$1.25 million in 2011; as a 2010 construction grant increased total revenue in that year.

Summary of Expenses

District expenses increased \$644,197 or 9.1% in 2012. As shown below, an \$845,528 increase in operating expenses was partially offset by a \$201,331 reduction in non-operating expenses, particularly interest.

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
Management's Discussion and Analysis
December 31, 2012 and 2011

Mountain Regional Water Special Service District's Expense Summary

	2012	2011	2010	\$ Change 2012 to 2011	% Change 2012 to 2011
Operating					
Operations, maintenance and repairs	\$ 1,788,964	\$ 1,536,953	\$ 1,615,963	\$ 252,011	16.4 %
Water production	1,728,576	1,163,162	890,949	565,414	48.6
Engineering and energy & technology management	415,846	380,717	370,919	35,129	9.2
Management and finance	568,164	614,292	637,190	(46,128)	(7.5)
Legal services	4,805	18,179	39,271	(13,374)	(73.6)
Depreciation	1,412,111	1,359,635	1,668,387	52,476	3.9
Total operating	<u>5,918,466</u>	<u>5,072,938</u>	<u>5,222,679</u>	<u>845,528</u>	<u>16.7</u>
Non-Operating					
Interest expense	1,670,592	1,840,764	1,802,708	(170,172)	(9.2)
Trustee and bank fees	44,520	49,576	62,455	(5,056)	(10.2)
Bond issuance cost amortization	72,623	98,726	76,147	(26,103)	(26.4)
Total non-operating	<u>1,787,735</u>	<u>1,989,066</u>	<u>1,941,310</u>	<u>(201,331)</u>	<u>(10.1)</u>
Total expenses	<u>\$ 7,706,201</u>	<u>\$ 7,062,004</u>	<u>\$ 7,163,989</u>	<u>\$ 644,197</u>	<u>9.1 %</u>

Water production and operations, maintenance & repairs accounted for most of the 2012 increase in operating expense. As planned, the rate increases discussed above generated additional revenue for the District to catch up on deferred maintenance. In addition to cutting administrative budgets; the maintenance related budgets were also cut in both 2010 and 2011 in order to meet the 1.25 debt coverage requirement. The District was aware that these cuts were not sustainable. In 2012, the District replaced old well pumps, replaced all its treatment plant membranes, repaired old buildings, and upgraded electrical systems.

Further, water production costs increased as the District sold more retail water in 2012 than it has the past few years; and Park City wheeled more of its water through the District's Lost Canyon system. As discussed above, the higher cost associated with Park City wheeling more water in 2012 was offset by increased wheeling fee collections.

District expenses decreased \$101,985 or 1.4% in 2011. Most notably, depreciation expense declined \$308,752 in 2011, as discussed earlier. This was partially offset by increased water lease fees, as reflected in the higher water production costs for 2011 as shown above.

Budgetary Information

For 2012, the District's change in net position of \$759,021 was \$1.56 million better than projected, as shown below.

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
Management's Discussion and Analysis
December 31, 2012 and 2011

Mountain Regional Water Special Service District's Budget Comparison

	2012 Actual	2012 Budget	Favorable (Unfavorable)	
Operating revenues:				
Water sales	\$ 6,873,147	\$ 6,160,900		
Operating fees	153,805	148,500		
Other	236,222	43,000		
Total operating revenue	<u>7,263,174</u>	<u>6,352,400</u>	<u>910,774</u>	14.3 %
Operating expenses:				
Operations				
Energy & Resource Management	323,311	330,800		
Lost Canyon Water Transmission	1,085,584	1,493,000		
Treatment Plant	642,992	458,400		
Distribution	1,762,279	1,621,600		
Safety	26,685	26,600		
Subtotal	<u>3,840,851</u>	<u>3,930,400</u>	<u>89,549</u>	
General Manager				
Engineering & Development	92,535	91,300		
Human Resources	36,138	35,200		
Legal	4,805	50,000		
Subtotal	<u>133,478</u>	<u>176,500</u>	<u>43,022</u>	
Public Services				
Public Services	330,664	341,800		
Subtotal	<u>330,664</u>	<u>341,800</u>	<u>11,136</u>	
Financial Management				
Financial Management	201,362	219,000		
Subtotal	<u>201,362</u>	<u>219,000</u>	<u>17,638</u>	
Depreciation				
Depreciation	1,412,111	1,404,900		
	<u>1,412,111</u>	<u>1,404,900</u>	<u>(7,211)</u>	
Total operating expenses	<u>5,918,466</u>	<u>6,072,600</u>	<u>154,134</u>	2.5 %
Operating income	<u>1,344,708</u>	<u>279,800</u>	<u>1,064,908</u>	
Non-operating revenue				
State grants	11,667	11,700		
Interest income	102,676	155,000		
Impact fees	196,067	230,000		
SID assessments	499,397	500,000		
Other non-operating revenue	22,564	38,000		
Total Non-operating revenue	<u>832,371</u>	<u>934,700</u>	<u>(102,329)</u>	(10.9) %
Non-operating expenses				
Interest expense	1,670,592	1,890,800		
Trustee and bank fees	44,520	47,900		
Bond issuance cost amortization	72,623	77,900		
Total operating expenses	<u>1,787,735</u>	<u>2,016,600</u>	<u>228,865</u>	11.3 %
Total non-operating income	<u>(955,364)</u>	<u>(1,081,900)</u>	<u>126,536</u>	
Income (loss) before operating transfers	<u>389,344</u>	<u>(802,100)</u>	<u>1,191,444</u>	
Contributions-in-aid of construction	369,677	-	369,677	
Change in net position	<u>\$ 759,021</u>	<u>\$ (802,100)</u>	<u>\$ 1,561,121</u>	

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
Management's Discussion and Analysis
December 31, 2012 and 2011

Operating revenue exceeded projections by \$910,774 or 14.3% in 2012 due to higher water sales resulting from hot dry weather and from wheeling more water to Park City through District infrastructure. In addition, the District received a \$190,676 insurance settlement negotiated by the Council and the District's liability insurer regarding the coverage related to a lawsuit.

Operating expenses were \$154,134 or 2.5% under budget in 2012, as all budget line items came in under budget; except non-cash depreciation expense was a nominal \$7,211 over budget. Operations accounted for \$89,549 or 58.1% of the budget savings due to lower power costs; as the District managed its power usage in 2012 to avoid higher on-peak power rates. Part of these savings was used to perform additional deferred maintenance.

Non-operating revenue was \$102,329 or 10.9% under projections. Lower impact fee collections combined with the reduced interest earnings that resulted from the Series 2012 bond refunding discussed above explain this negative variance. Although the District collected impact fees in 2012 for about the same number of new connections that it collected each of the past three years, the new connections for 2012 had lower impact fees than those from 2009 to 2011.

Non-operating expenses were \$228,865 or 11.3% under budget as debt restructuring, including the Series 2012 refunding bonds, led to interest expense savings of \$220,208.

Capital Assets

The District operates as an enterprise fund which includes the capitalization and depreciation of all assets. Asset categories include land and water rights; infrastructure not buildings (water system infrastructure); construction in progress; and buildings, equipment and furnishings.

**Mountain Regional Water Special Service District's Capital Assets
(net of depreciation)**

				\$	%
	2012	2011	2010	Change 2012 to 2011	Change 2012 to 2011
Land and water rights	\$ 19,577,263	\$ 19,591,043	\$ 18,577,678	\$ (13,780)	(0.1) %
Construction in progress	984,355	40,981	2,617,603	943,374	2,302.0
Infrastructure not buildings	50,407,563	51,251,761	48,491,351	(844,198)	(1.6)
Buildings, equipment and furnishings	6,501,610	6,690,688	5,543,314	(189,078)	(2.8)
Total capital assets (net)	<u>\$ 77,470,791</u>	<u>\$ 77,574,473</u>	<u>\$ 75,229,946</u>	<u>\$ (103,682)</u>	<u>(0.1) %</u>

As shown above, the District's capital assets (net of depreciation) as of December 31, 2012 amounted to \$77.47 million, a minimal 0.1% reduction from 2011. The completion of small capital projects and contributions-in-aid of construction was offset by depreciation expense.

Capital assets increased in 2011 to \$77.57 million, a 3.1% or \$2.34 million increase. Most of this increase is attributable to the completion of pretreatment facilities, the Summit Park restoration project, and contributions-in-aid of construction provided by developers for their respective subdivisions.

The increases in capital assets for both 2012 and 2011 were offset by depreciation. Because the amounts shown above are net of depreciation and the District received contributions-in-aid of construction, the amount of cash expended for capital projects as shown in other areas of these financial statements is different.

The District continues to take steps to reduce energy costs. In early 2012, it received a zero interest "Green Projects" loan of \$1.28 million from the State of Utah. The proceeds will be used to install more energy efficient pumps, to update its SCADA system to allow more water to be pumped when lower off-peak power rates are in effect, and to increase the capacity of treatment plant so more water can be treated and stored off-peak as well. These "Green Projects" are about 50.0% complete, and should be finished by the fall of 2013.

The District has also scheduled two small capital projects for 2013, including additional water line replacement in Summit Park, and the upgrade of a pump station.

Lawsuit Settlement

Summit County and the District reached a settlement in 2011 with Summit Water on its decade old antitrust lawsuit. This settlement resulted in dismissal of the lawsuit with prejudice; and paved the way for all the major water providers in Snyderville Basin to work together to address long-term water needs in a more cost effective manner.

The settlement also provides the District the opportunity to sell its excess culinary water directly to Summit Water on a wholesale basis.

In addition, the settlement requires Summit Water to provide a perpetual water source to the District in exchange for the District allowing Summit Water the opportunity to provide up to 50% of the water source to new developments selecting the District as their water provider. This term remains in effect until 2030. Until then, the District could pay Summit Water up to 50% of the water rights / source impact fees the District collects from new development approved by Summit County after the settlement date.

The District currently has roughly 2,000 future connections available from existing development agreements that are exempt from the sharing of water rights / source impact fees with Summit Water. As such, no revenue currently pledged for payments on existing bonds is affected; and the District will receive additional revenue from selling wholesale culinary water to Summit Water for the next ten to fifteen years.

The District is currently working with Weber Basins Water Conservancy District, Summit County, Park City, Summit Water, and Snyderville Basin Water Reclamation District to address the long-term water needs in Snyderville Basin that could lead to second importation project. It is expected that this project is ten or more years away.

Outstanding Debt

The District maintains a schedule to pay off all its debt by 2033. The District's debt level resulted from the need to acquire additional water rights, sources, and infrastructure to provide water to struggling service areas acquired or annexed into the District that were experiencing water shortages and quality problems.

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
Management's Discussion and Analysis
December 31, 2012 and 2011

Mountain Regional Water Special Service District's Net Debt Outstanding

				\$ Change 2012 to 2011	% Change 2012 to 2011
	2012	2011	2010		
Revenue and refunding bonds	\$ 35,565,000	\$ 38,285,000	\$ 38,405,000	\$ (2,720,000)	(7.1) %
Special assessment bonds	-	-	-	-	-
Government notes and bonds	6,458,022	6,185,489	5,226,177	272,533	4.4
Debt reserves funded from bond proceeds	-	(2,955,000)	(2,955,000)	2,955,000	(100.0)
Unamortized premiums	2,440,639	452,007	490,223	1,988,632	440.0
Unamortized expenses	(782,739)	(979,396)	(1,047,711)	196,657	(20.1)
Unamortized gain on invested debt reserves applied to bond refunding	868,716	-	-	868,716	-
Unamortized loss on bond refunding	(2,712,408)	-	-	(2,712,408)	-
Total debt outstanding	\$ 41,837,230	\$ 40,988,100	\$ 40,118,689	\$ 849,130	2.1 %

In 2012, District long-term debt outstanding increased \$849,130 as the District drew down \$745,000 of a new \$1.28 million state loan. The numerous impacts of refunding the Series 2003 revenue bonds generally offset each other, including changes in bonds payable, debt reserves funded from bond proceeds; and unamortized premiums, expenses, gains on investment, and losses on refunding.

Revenue and refunding bonds outstanding dropped \$2.72 million in 2012; as the District refinanced its Series 2003 revenue bonds in order to take advantage of historic low interest rates, and its improved bond rating of "A+/AA-". This compares to a "BBB" rating when the Series 2003 bonds were issued. The 2012 bonds have a true interest cost of 3.55%; while the remaining Series 2003 bonds had annual interest rates between 4.5% and 5.0%.

The District only needed to issue \$27.27 million in new Series 2012 bonds to refund the existing \$29.89 million in Series 2003 bonds because the Series 2003 debt reserve of \$2.95 million was available to reduce the par amount of the new bonds. The new Series 2012 bonds did not require a debt reserve due to the District's improved bond rating and the establishment of the rate stabilization fund.

This 2012 refinancing resulted in a \$193,100 reduction in interest expense for 2012. However, lost 2012 interest earnings on the Series 2003 debt reserve resulted in total net savings of about \$130,000.

The refinancing will also provide the District with \$250,000 in net annual savings the next few years. This includes roughly \$385,000 in annual interest expense savings over the next five years that will be partially offset by a \$135,000 reduction in interest earned on the Series 2003 debt reserve. This reduction in interest earnings is the result of not establishing a new debt reserve for the Series 2012 bonds.

The Series 2012 refunding bonds also generated a one-time \$747,000 cash infusion that was used to prepay \$200,000 of the \$500,000 Summit County loan in 2012; and the remaining \$300,000 was prepaid 2013. The remaining \$247,000 cash infusion was deposited in the rate stabilization fund.

In 2011, the government notes and bonds increased as Weber Basin recovers \$881,563 of the cost of constructing a power substation over a twenty year period. The District recorded this twenty year payment as Notes Payable. The District also received a \$500,000 county loan discussed earlier. A 2011 bond refunding with the State of

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
Management's Discussion and Analysis
December 31, 2012 and 2011

Utah consolidated two state loans into one. The schedule principal payments were \$322,845, plus an additional \$898,000 in debt was prepaid.

The District is required by several bond covenants to budget for a debt service coverage ratio of at least 1.25 times. The District continued to meet or exceed this coverage requirement again in 2012.

The history of the District's underlying bond ratings is shown below.

**Mountain Regional Water Special Service District
Bond Rating History**

	2003	2009	2010	2011	2012
Series 2003 Revenue Bond					
Standard & Poor's	BBB	A+	A+	A+	n/a
Fitch	BBB	A	AA-	AA-	n/a
Series 2009B Revenue Bond					
Standard & Poor's	n/a	A+	A+	A+	A+
Fitch	n/a	A	AA-	AA-	AA-
Series 2012 Revenue Bond					
Standard & Poor's	n/a	n/a	n/a	n/a	A+
Fitch	n/a	n/a	n/a	n/a	AA-

Impact Fees

The District's governing board adopted impact fees in 2003 to recover the proportionate share of infrastructure costs serving new development. The District is in the process of updating its capital facilities plan and related impact fees in 2013.

Since a significant portion of the District's infrastructure was funded with long-term debt, most impact fees collected are applied to debt service, as shown below.

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
Management's Discussion and Analysis
December 31, 2012 and 2011

**Mountain Regional Water Impact Fees Collections & Expenditures
(Cash Basis)**

	2008	2009	2010	2011	2012	Total
Cash Collections						
Impact Fees	\$ 61,313	\$ 72,974	\$ 232,210	\$ 228,948	\$ 196,067	\$ 6,611,677
Interest Earnings	50,546	12,484	4,028	3,538	4,471	387,920
Total cash collections	<u>111,859</u>	<u>85,458</u>	<u>236,238</u>	<u>232,486</u>	<u>200,538</u>	<u>6,999,597</u>
Cumulative cash collections	6,244,877	6,330,335	6,566,573	6,799,059	6,999,597	
Cash Expenditures						
Debt Service ⁽¹⁾	600,000	400,000	673,266	200,000	230,000	4,976,929
Basin Pipeline	-	-	-	-	-	1,322,226
Total cash expenditures	<u>600,000</u>	<u>400,000</u>	<u>673,266</u>	<u>200,000</u>	<u>230,000</u>	<u>6,299,155</u>
Cumulative cash expenditures	4,795,889	5,195,889	5,869,155	6,069,155	6,299,155	
Net Cash Flow to Date	<u>\$ (488,141)</u>	<u>\$ (314,542)</u>	<u>\$ (437,028)</u>	<u>\$ 32,486</u>	<u>\$ (29,462)</u>	<u>\$ 700,442</u>
Cumulative Cash Flow	1,448,988	1,134,446	697,418	729,904	700,442	
Projected Future Uses						
Debt Service ⁽¹⁾	\$ 230,000	\$ 230,000	\$ 240,442	\$ -	\$ -	\$ 700,442
Other Projects	-	-	-	-	-	-
Total Future Cash Expenditures	<u>\$ 230,000</u>	<u>\$ 230,000</u>	<u>\$ 240,442</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 700,442</u>
Total Projected Cumulative Cash Flow						<u>\$ -</u>

(1) The following projects are shown at the pro-rata cost, including financing, for the project capacity that will serve new development. These projects were funded with a portion of the proceeds from revenue bonds and state loans.

	Total Project Cost	Cost Allocated to Impact Fees
Funded Projects Completed		
Water Rights & Shares	\$ 30,293,504	\$ 15,307,333
Lost Canyon Water Importation Project	50,523,749	8,022,662
Basin Transmission Line	15,294,678	9,215,241
Total Projects	<u>96,111,931</u>	<u>32,545,236</u>
	Years Financed	30
	Annual Debt Service	<u>\$ 1,084,841</u>

Between 2003 and 2006, collections far exceeded amounts applied to debt service, allowing the District to deposit significant collections in reserve. These reserves were used during 2007 through 2010 to help make debt payments.

In 2011, the District started to budget less each year for impact fee collections than in previous years. Since then, impact fee collections have been close to budgeted projections.

Impact fee collections are driven by the housing market, which has been slow since late 2008. Moving forward, it appears impact fee collections should remain stable at lower levels until such time as the building economy in Snyderville Basin improves.

Requests for Information

This financial report is designed to provide a general overview of Mountain Regional Water Special Service District's finances for all those interested. Questions concerning this or other financial information should be addressed to the Chief Financial Officer, Mountain Regional Water Special Service District, 6421 N. Business Park Loop Road – Suite A, P.O. Box 982320, Park City, Utah 84098.

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
Statements of Net Position
December 31, 2012 and 2011

	2012	2011
Assets		
Current Assets		
Cash	\$ 3,048,693	\$ 1,845,641
Restricted cash	1,466,951	1,005,889
Accounts receivable	445,390	417,442
Due from other governmental entities	70,996	-
Other receivables	297,545	114,088
Prepaid expenses	948,759	869,764
Inventory	115,838	74,253
Total current assets	6,394,172	4,327,077
Cash Restricted for Debt Repayment	716,458	592,710
Capital Assets		
Depreciable assets, net	56,909,173	57,942,449
Land and water rights	19,577,263	19,591,043
Construction-in-progress	984,355	40,981
Total assets	77,470,791	77,574,473
	\$ 84,581,421	\$ 82,494,260

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
Statements of Net Position
December 31, 2012 and 2011

	2012	2011
Liabilities		
Current Liabilities		
Accounts payable	\$ 296,516	\$ 128,824
Accrued liabilities	615,621	579,610
Due to other government entities	374,110	98,803
Current portion, accrued liability - developer	50,000	50,000
Current portion of long-term debt	1,256,823	222,783
Total current liabilities	2,593,070	1,080,020
Accrued Liability - Developer, Less Current Portion	1,504,255	1,504,255
Long-Term Debt, Net of Current Portion	40,580,407	40,765,317
Total liabilities	44,677,732	43,349,592
Net Position		
Invested in capital assets, net of related debt	35,633,561	36,586,372
Restricted	1,140,710	746,752
Unrestricted	3,129,418	1,811,544
Total net position	39,903,689	39,144,668
	\$ 84,581,421	\$ 82,494,260

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
Statements of Revenues, Expenses and Changes in Net Position
Year Ended December 31, 2012 and 2011

	2012	2011
Operating Revenues		
Water sales	\$ 6,873,147	\$ 5,297,520
Operation fees	153,805	151,616
Other	236,222	48,279
Total operating revenues	7,263,174	5,497,415
Operating Expenses		
Operations, maintenance and repairs	1,788,964	1,536,946
Water Production	1,728,576	1,163,163
Engineering and energy and technology management	415,846	380,717
Management and finance	568,164	614,297
Legal services	4,805	18,180
Depreciation	1,412,111	1,359,635
Total operating expenses	5,918,466	5,072,938
Operating Income	1,344,708	424,477
Non-Operating Revenues (Expenses)		
Grants	11,667	11,667
Interest income	102,676	153,164
Impact fees	196,067	242,285
Special Improvement District assessments	499,397	453,020
Gain on sale of capital assets	16,952	3,398
Other non-operating revenue	5,612	1,725
Interest expense	(1,670,592)	(1,840,764)
Trustee and bank fees	(44,520)	(49,576)
Bond issuance cost amortization	(72,623)	(98,726)
Total non-operating revenues (expenses), net	(955,364)	(1,123,807)
Income (Loss) Before Transfers	389,344	(699,330)
Contributions-in-aid of Construction	369,677	2,075,743
Change in net position	759,021	1,376,413
Net Position, Beginning of Year	39,144,668	37,768,255
Net Position, End of Year	\$ 39,903,689	\$ 39,144,668

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
Statements of Cash Flows
Year Ended December 31, 2012 and 2011

	2012	2011
Operating Activities		
Cash received from customers	\$ 6,980,773	\$ 5,672,372
Cash paid to suppliers	(2,208,402)	(1,554,409)
Cash paid to employees	(1,930,877)	(1,797,522)
Net Cash from Operating Activities	2,841,494	2,320,441
Capital and Related Financing Activities		
Interest and bank fees paid	(1,767,115)	(1,938,483)
Purchase of property and equipment	(805,005)	(1,643,676)
Proceeds from sale of capital assets	56,355	18,654
Long-term debt payments	(27,507,466)	(1,220,845)
Proceeds from long-term debt	28,981,585	2,060,157
Capitalized bond issuance costs	(815,738)	(18,744)
Net repayments of prepaid impact fees	-	(14,132)
Proceeds on accrued liability - developer	-	(13,336)
Special Improvement District assessment	499,397	453,020
Impact fees	196,067	242,285
Other revenue received	5,612	1,725
Net Cash used for Capital and Related Financing Activities	(1,156,308)	(2,073,375)
Investing Activities		
Investment income	102,676	153,164
Investment in restricted cash	(584,810)	(111,084)
Net Cash from (used for) Investing Activities	(482,134)	42,080
Net Change in Cash	1,203,052	289,146
Cash, Beginning of Period	1,845,641	1,556,495
Cash, End of Period	\$ 3,048,693	\$ 1,845,641

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
Statements of Cash Flows
December 31, 2012 and 2011

	2012	2011
Reconciliation of Operating Income to Net Cash from		
Operating Activities		
Operating income	\$ 1,344,708	\$ 424,477
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation	1,412,111	1,359,635
Changes in operating assets and liabilities:		
Accounts receivable	(27,948)	5,825
Due from other government entities	(70,996)	152,810
Other receivables	(183,457)	16,322
Prepaid expenses	(78,995)	363,789
Inventory	(41,585)	(1,660)
Accounts payable	167,692	(29,580)
Accrued liabilities	44,657	28,823
Due to other government entities	275,307	-
Total adjustments	1,496,786	1,895,964
Net cash from operating activities	\$ 2,841,494	\$ 2,320,441
Supplemental Disclosure of Non-Cash Investing and Financing Activities		
Capital asset contributions-in-aid of construction	\$ 369,677	\$ 2,075,743
Reduction of note payable through transfer of water leases	173,149	-

Note 1 - Summary of Significant Accounting Policies

This summary of significant accounting policies of Mountain Regional Water Special Service District (the “District”) is presented to assist in understanding the District’s financial statements. The financial statements and notes are representations of the District’s management, who are responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles, and have been consistently applied in the preparation of these financial statements.

Operations

The District was formed in 1982 pursuant to a resolution adopted by the Summit County Council providing for the creation of the Atkinson Special Service District of Summit County, Utah. On February 2, 2000, the name was changed to Mountain Regional Water Special Service District. The District was created to provide improved water utility services to existing areas and to areas of new growth and development within Snyderville Basin and Promontory Development of Summit County.

Reporting Entity

The District is a component unit of Summit County, Utah and, as such, has been included in the basic financial statements of Summit County, Utah. The District is governed by the Summit County Council.

Budgetary Policy

Budgetary procedures for the District have been established by Utah State Code Annotated in Title 17B, Chapter 1(629) – Local Districts – Operating and Capital Budgets. The District uses the same accounting method for preparing the budget as is used for financial reporting.

Annual proprietary fund operating and capital budgets are prepared in accordance with state law. On or before the first regularly scheduled meeting of the Summit County Council in November, the Council must adopt a tentative budget for the following fiscal year for public review. At least thirty days after the tentative budget is adopted, but no later than December 31, the Council must hold a public hearing on the tentative budget. A final budget must be adopted by the Council no later than December 31.

Budgets may be increased by resolution of the Council at any time during the fiscal year at a regular meeting or special meeting called for that purpose.

Fund Accounting

The accounts of the District are organized into a single enterprise fund.

Enterprise Fund – The Enterprise Fund is used to account for operations financed and operated in a manner similar to private business enterprises – (a) where the intent of the governing body is that the costs (expense, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for public policy, management control, accountability, or other purposes.

Measurement Focus

The accounting and reporting treatment applied to a fund is determined by its measurement focus. Proprietary funds are accounted for on an economic resources measurement focus and the accrual basis of accounting. This means that all assets and all liabilities (whether current or non-current) associated with their activity are included on the balances sheets. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in total assets.

Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All proprietary funds are accounted for using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

In instances in which both restricted and unrestricted sources of revenues are earned for a similar purpose, the restricted revenues are applied toward expenses first.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and those differences could be material.

Cash and Cash Equivalents

The District considers all cash and highly liquid financial instruments with original maturities of three months or less, and which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents. Cash and highly liquid financial instruments restricted to capital expenditures, permanent endowment, or other long-term purposes of the District are excluded from this definition.

Accounts Receivable

Accounts receivables due from customers are uncollateralized customer obligations due under normal trade terms requiring payment within 30 days from the invoice date. Accounts receivables are stated at the amount billed to the customer. The District charges interest on overdue customer account balances at a rate of 18% annually. Payments of accounts receivables are allocated to the specific invoices identified on the customer's remittance advice or, if unspecified, are applied to the earliest unpaid invoices.

The District estimates an allowance for doubtful accounts based upon an evaluation of the current status of receivables, historical experience, and other factors as necessary. It is reasonable possible that the District's estimate of the allowance for doubtful accounts will change.

Inventory

Inventory is stated at the lower of cost or market determined by the first-in first-out method.

Proprietary Fund Capital Assets

Capital additions, improvements and major renewals are classified as property, plant and equipment and are recorded at cost. Mountain Regional Water Special Service District capitalized all fixed asset purchases with costs in excess of \$5,000. Major maintenance projects in excess of \$5,000 are examined to determine whether they should be capitalized or expensed. Depreciation is recorded by use of the straight-line method. The book value of each asset is reduced by equal amounts over its estimated useful life as follows:

	Estimated Useful Life (Years)
Improvements Not Buildings	17 - 60
Buildings	60
Equipment, Furnishings & Fixtures	5 - 7

Maintenance, repairs and minor renewals are charged to operations as incurred. When an asset is disposed of, accumulated depreciation is deducted from the original cost, and any gain or loss arising from its disposal is credited or charged to operations. Interest costs incurred during construction are capitalized net of earnings when they are material.

Bond issuance costs are amortized over the term of the bond.

Capitalized Interest Cost

The District capitalizes interest in connection with the construction of water systems financed through debt. Interest capitalization ceases when water systems are completed and available for use. For the year ended December 31, 2012 and 2011, total interest capitalized was \$0 and \$4,443, respectively.

Restricted Net Position

The District has several situations where net position must be classified as restricted.

The largest component is funds set aside for debt service. This includes debt reserves held by a trustee as required by bond covenants; as well as the required monthly deposits into trustee accounts to make annual principal and interest payments. Bond covenants require monthly deposits into trustee accounts roughly equal to 1/12th of annual debt payments.

Utah State Law also requires certain funds to be held in restricted accounts. This includes impact fee collections, and state bond proceeds. In addition, the state requires the District to maintain capital facility repair and replacement funds as part of the bond covenants for state loans.

The federal government requires funds to be held in restricted trustee accounts for estimated future bond arbitrage tax payments to the IRS.

The District also has contractual restrictions including repair reserves and liabilities owed to developers. The District has contracts with two developers that require the District to reimburse them for prepaid impact fees and special assessments. However, the District is only required to reimburse these developers after it collects the related impact fees and special assessments from lot owners when they apply for a building permit.

Subsequent Events

The District has evaluated subsequent events through June 6, 2013, the date the financial statements were available to be issued.

Note 2 - Deposits and Investments

Deposits and investments for the District are governed by Utah State Code Annotated in Title 51, Chapter 7 - Utah Money Management Act (Act) and by the rules of the Utah Money Management Council (Council). Following are discussions of risks related to its cash management activities.

Custodial Credit Risk

Deposits – Custodial credit risk for deposits is the risk that in the event of a bank failure, the District’s deposits may not be recovered. The District’s policy for managing custodial credit risk is to adhere to the Act. The Act requires all deposits of the District to be in a qualified depository, defined as any financial institution whose deposits are insured by an agency of the federal government and which has been certified by the Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Council.

The District maintains its cash accounts in various deposit accounts, the balances of which are periodically in excess of federally insured limits.

Credit Risk

Investments – Credit risk is the risk that the counterparty to an investment will not fulfill its obligations. The District’s policy for limiting the credit risk is to comply with the Act.

The District is authorized to invest in the Utah Public Treasurer’s Investment Fund (PTIF), an external pooled investment fund managed by the Utah State Treasurer subject to the Act and Council requirements. The PTIF is not registered with the SEC as an investment company, and deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah. The PTIF operates and reports to participants on an amortized basis. The income, gains, and losses, net of administrative fees, of the PTIF are allocated based upon the participant’s average daily balances.

As of December 31, 2012 and 2011, the District had \$3,957,336 and \$2,286,443, respectively, invested directly with the PTIF. In addition, the District had, as of December 31, 2012 and 2011, respectively, \$911,222 and \$248,388 of debt service reserve, bond sinking fund, and bond proceeds invested with the PTIF through Wells Fargo Corporate Trust, who acts as trustee for these funds. The amounts invested with the PTIF are reported at fair value. The entire balance had a maturity of less than one year. The PTIF pool has not been rated.

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
Notes to Financial Statements
December 31, 2012 and 2011

As of December 31, 2012 and 2011, the District had \$0 and \$2,955,468, respectively, invested in a forward-delivery agreement with Bank of America. The funds invested represent the debt service reserve for Series 2003 \$33 million revenue and refunding bond. The Series 2003 bonds were paid off in 2012 using proceeds from the Series 2012 revenue and refunding bond and this Series 2003 debt service reserve.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District manages its exposure to declines in fair value by investing mainly in the PTIF and by adhering to the Act. The Act requires that the remaining term to maturity of the investment may not exceed the period of availability of the funds to be invested.

Note 3 - Capital Assets

A summary of activity in the Capital Assets for the year ended December 31, 2012 is as follows:

	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
Capital assets not being depreciated					
Land and water rights	\$ 19,591,043	\$ -	\$ (13,780)	\$ -	\$ 19,577,263
Construction-in-progress	40,981	1,220,606	(36,883)	(240,349)	984,355
	<u>19,632,024</u>	<u>1,220,606</u>	<u>(50,663)</u>	<u>(240,349)</u>	<u>20,561,618</u>
Depreciable assets					
Buildings	7,412,669	24,102	-	-	7,436,771
Improvements other than buildings	61,699,017	17,548	-	240,349	61,956,914
Furniture and fixtures	218,131	-	(34,970)	-	183,161
Machinery and equipment	947,080	24,500	(28,432)	4,900	948,048
Vehicles	662,153	97,960	(74,522)	(4,900)	680,691
Engineering library	105,000	-	-	-	105,000
	<u>71,044,050</u>	<u>164,110</u>	<u>(137,924)</u>	<u>240,349</u>	<u>71,310,585</u>
Accumulated depreciation	<u>(13,101,601)</u>	<u>(1,412,112)</u>	<u>112,301</u>	<u>-</u>	<u>(14,401,412)</u>
	<u>57,942,449</u>	<u>(1,248,002)</u>	<u>(25,623)</u>	<u>240,349</u>	<u>56,909,173</u>
	<u>\$ 77,574,473</u>	<u>\$ (27,396)</u>	<u>\$ (76,286)</u>	<u>\$ -</u>	<u>\$ 77,470,791</u>

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
Notes to Financial Statements
December 31, 2012 and 2011

A summary of activity in the Capital Assets for the year ended December 31, 2011 was as follows:

	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
Capital assets not being depreciated					
Land and water rights	\$ 18,577,678	\$ 1,013,365	\$ -	\$ -	\$ 19,591,043
Construction-in-progress	2,617,603	691,930	-	(3,268,552)	40,981
	<u>21,195,281</u>	<u>1,705,295</u>	<u>-</u>	<u>(3,268,552)</u>	<u>19,632,024</u>
Depreciable assets					
Buildings	6,050,093	1,362,576	-	-	7,412,669
Improvements other than buildings	57,890,112	540,353	-	3,268,552	61,699,017
Furniture and fixtures	218,131	-	-	-	218,131
Machinery and equipment	910,105	36,975	-	-	947,080
Vehicles	658,941	74,220	(71,008)	-	662,153
Engineering library	105,000	-	-	-	105,000
	<u>65,832,382</u>	<u>2,014,124</u>	<u>(71,008)</u>	<u>3,268,552</u>	<u>71,044,050</u>
Accumulated depreciation	<u>(11,797,717)</u>	<u>(1,359,635)</u>	<u>55,751</u>	<u>-</u>	<u>(13,101,601)</u>
	<u>54,034,665</u>	<u>654,489</u>	<u>(15,257)</u>	<u>3,268,552</u>	<u>57,942,449</u>
	<u>\$ 75,229,946</u>	<u>\$ 2,359,784</u>	<u>\$ (15,257)</u>	<u>\$ -</u>	<u>\$ 77,574,473</u>

Depreciation expense for 2012 and 2011 was \$1,412,111 and \$1,359,635, respectively.

Contributions-in-aid of construction in the amounts of \$369,677 and \$2,075,743 were contributed to the District in 2012 and 2011, respectively.

Note 4 - Accrued Liabilities

Accrued liabilities consist of accrued wages and benefits, customer deposits, and interest on outstanding debt. As of December 31, 2012 and 2011, accrued liabilities were \$615,621 and \$579,610, respectively. Accrued payroll accounted for \$339,636 of accrued liabilities as of December 31, 2012 and \$298,166 as of December 31, 2011.

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah

Notes to Financial Statements
December 31, 2012 and 2011

Note 5 - Long-term Debt

A summary of long-term debt activity for the years ended December 31, 2012 and 2011 is as follows:

	Balance January 1, 2012	Additions	Reductions	Balance December 31, 2012	Due Within One Year
Notes payable	\$ 2,631,489	\$ -	\$ (462,467)	\$ 2,169,022	\$ 864,000
Bonds payable	41,839,000	28,015,000	(30,000,000)	39,854,000	392,823
Debt reserves fund with bond proceeds	(2,955,000)	-	2,955,000	-	-
Unamortized premium	452,007	2,319,155	(330,523)	2,440,639	-
Unamortized expenses	(979,396)	(785,726)	982,383	(782,739)	-
Unamortized gain on invested debt reserves applied to refunding	-	868,716	-	868,716	-
Unamortized loss on bond refunding	-	(2,712,408)	-	(2,712,408)	-
	<u>\$ 40,988,100</u>	<u>\$ 27,704,737</u>	<u>\$ (26,855,607)</u>	<u>\$ 41,837,230</u>	<u>\$ 1,256,823</u>

	Balance January 1, 2011	Additions	Reductions	Balance December 31, 2011	Due Within One Year
Notes payable	\$ 1,309,177	\$ 1,381,157	\$ (58,845)	\$ 2,631,489	\$ 112,783
Bonds payable	42,322,000	679,000	(1,162,000)	41,839,000	110,000
Debt reserves fund with bond proceeds	(2,955,000)	-	-	(2,955,000)	-
Unamortized premium	490,223	-	(38,216)	452,007	-
Unamortized expenses	(1,047,711)	(18,743)	87,058	(979,396)	-
	<u>\$ 40,118,689</u>	<u>\$ 2,041,414</u>	<u>\$ (1,172,003)</u>	<u>\$ 40,988,100</u>	<u>\$ 222,783</u>

The District has one outstanding note payable to the State of Utah, Department of Natural Resources – Division of Water Resources. The note was assumed as part of acquisitions of water companies by the District. The note is secured by property and requires annual payments.

The District's remaining bonds and notes are secured by the revenues of the District. As part of a 2009 refunding, the District's revenue bonds are also now secured by special assessments on property within special improvement districts.

Principal and interest payments are due annually and semi-annually.

2012 Bond Refunding

The District refinanced its Series 2003 revenue bonds in 2012 to take advantage of historic low interest rates, and its improved bond rating of “A+/AA-”. This compares to a “BBB” rating when the Series 2003 bonds were issued.

To facilitate this refinancing, the District issued \$27.27 million in new Series 2012 revenue refunding bonds with a true interest cost of 3.55%. The bond proceeds, combined with a portion of the Series 2003 debt reserve of \$2.95 million, were used to pay off \$29.89 million in Series 2003 bonds that had remaining annual interest rates between 4.5% and 5.0%. The Series 2012 bonds did not require a debt reserve due to the District’s improved bond rating and establishment of a \$1.0 million rate stabilization fund.

The Series 2012 bonds were sold at a \$2.38 million premium that will be amortized over the life of the bonds. The unamortized amount of this premium as of December 31, 2012 was \$2.32 million.

In addition, the District netted an \$892,943 gain on the sale of the funds invested in the Series 2003 debt reserves that were used to reduce the par amount of the Series 2012 bonds. This gain will be amortized over the life of the Series 2012 bonds. The unamortized amount of the gain as of December 31, 2012 was \$868,716.

The District also experienced a \$2.79 million loss on the refunding that will be amortized over the life of the new Series 2012 bonds. The unamortized amount of the loss as of December 31, 2012 is \$2.71 million.

The maturity date of the Series 2012 refunding bonds is December 15, 2033, the same date as for the Series 2003 bonds that were refunded.

The 2012 refunding will result in \$7.32 million in savings over the next twenty years. However, \$2.97 million in earnings on the Series 2003 debt reserve will also be lost, as these reserves were used to reduce the par amount of the Series 2012. This results in net savings of \$4.35 million, which has a net present value of \$3.41 million.

This refinancing resulted in a \$193,100 reduction in 2012 interest expense. However, lost 2012 interest earnings on the Series 2003 debt reserve resulted in net savings of about \$130,000.

The 2012 refinancing will provide the District with \$250,000 in net annual savings the next few years. This includes roughly \$385,000 in annual interest expense savings over the next five years that will be partially offset by a \$135,000 reduction in interest earned on the Series 2003 debt reserves.

Series 2011B Bond

In 2011, the Summit County Council authorized \$1.28 million in Series 2011B bonds that were not issued until 2012. This state loan funded by the Environmental Protection Agency (EPA), with no interest, may only be used on “Green Projects”. The District projects the energy cost savings will exceed the debt service costs.

2012 Weber Basin Note Adjustment

The District has a note payable due to Weber Basin Water Conservancy District. This is a subordinated debt secured by revenue. The twenty year note is to reimburse Weber Basin for infrastructure it constructed for Phase II of the Lost Canyon project.

In 2012, the amount of this note was reduced from \$2,206,585 to \$2,033,436; as the District transferred 400 acre feet of its Lost Canyon water leases and capacity to Park City. Since a portion of the note payable is based upon the proportionate share of capacity the District and Park City own in certain Lost Canyon Phase II components; the transfer reduced the percentage of these component costs allocated to the District.

2012 Summit County Note Prepayment

In 2011, the District issued a \$500,000 subordinated note to Summit County due in 2014. These funds were earmarked to prepay state loans to help meet debt coverage in 2011 and 2012, until rate increases effective in August 2011 and August 2012 were in full effect. The District's rate increases included funds to pay off this note in 2014. However, the Series 2012 bonds generated a one-time cash infusion, a portion of which was used to prepay \$200,000 of the \$500,000 Summit County subordinated note in 2012; and the remaining amount in 2013.

Series 2011A Bond

In 2011, the District received authorization from the Summit County Council to issue \$679,000 in new Series 2011A revenue bonds with a twenty-year term. This was done in order to consolidate two state loans into one; including the Series 2009A bonds that originally had a ten-year term to fund assets that will last thirty to fifty years.

Debt Payments

In addition to the prepayments and adjustments discussed above, the District made scheduled principal payments in 2012 of \$199,317 compared to \$322,845 in 2011. The District also prepaid \$898,000 in principal payments in 2011.

Debt Coverage

The District's debt coverage ratios for 2012 and 2011 were 2.06 and 1.26, respectively. The improved 2012 ratio resulted from rate increases, higher water sales, and refinancing high interest debt with lower interest debt.

To achieve the required ratio of 1.25 in 2011, the District implemented budget cuts.

In 2011, the District amended its revenue bond General Indenture of Trust to establish a rate stabilization fund. It was established to help the District better deal with cyclical development related revenue, prepayment of assessments, treatment plant costs that vary dramatically from year to year, and the impact of weather on water sales.

The amendment to the indenture allows the District to include the balance in the rate stabilization fund in its debt coverage calculation. When the \$1.02 million balance is included, the 2012 coverage ratio improves to 2.65.

Debt Schedule

The District has issued the following notes and bonds payable as of December 31, 2012 and 2011:

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
Notes to Financial Statements
December 31, 2012 and 2011

Series	Original Issue	Interest Rate	Maturity Date	Principal Outstanding	
				2012	2011
Notes payable					
State of Utah, Dept. of Natural Resources - Div. of Water Resources Note	\$ 324,000	None	2016	\$ 43,094	\$ 56,193
Summit County Note	500,000	1.5%	2014	300,000	500,000
Weber Basin Water Conservancy District Note	2,206,585	4.6%	2028	1,825,928	2,075,296
				<u>2,169,022</u>	<u>2,631,489</u>
Bonds payable					
Water revenue					
2002B	433,000	None	2015	100,000	100,000
2003	33,000,000	2.0% - 5.0%	Refunded	-	29,890,000
2006	278,000	None	2018	131,000	131,000
2008	3,026,000	2.0%	2029	2,644,000	2,644,000
2009B	9,045,000	2.0% - 3.5%	2018	8,295,000	8,395,000
2011A	679,000	1.52%	2031	669,000	679,000
2011B	1,278,000	None	2032	745,000	-
2012	27,270,000	2.0% - 5.0%	2033	27,270,000	-
				<u>39,854,000</u>	<u>41,839,000</u>
Debt reserves funded with bond proceeds					
2003	(2,955,000)	N/A	Refunded	-	(2,955,000)
				<u>-</u>	<u>(2,955,000)</u>
Unamortized premiums					
2003	417,581	N/A	Refunded	-	306,226
2009B	202,474	N/A	2018	121,484	145,781
2012	2,383,832	N/A	2033	2,319,155	-
				<u>2,440,639</u>	<u>452,007</u>
Unamortized expenses					
Water revenue					
2002B	(10,588)	N/A	2015	(2,264)	253,520
2003	(1,309,864)	N/A	Refunded	-	(962,453)
2006	(9,152)	N/A	2018	(4,546)	(5,251)
2008	(63,540)	N/A	2029	(50,830)	(54,009)
2009B	(250,976)	N/A	2018	(167,346)	(192,460)
2011 Country Note	(2,743)	N/A	2014	(1,829)	(2,743)
2011A	(16,000)	N/A	2031	(15,199)	(16,000)
2011B	(33,809)	N/A	2032	(32,821)	-
2012	(773,206)	N/A	2033	(507,904)	-
				<u>(782,739)</u>	<u>(979,396)</u>
Unamortized gain on debt reserve investment applied to bond refunding					
2012	892,943	N/A	2033	868,716	-
				<u>868,716</u>	<u>-</u>
Unamortized loss on bond refunding					
2012	2,788,053	N/A	2033	(2,712,408)	-
				<u>(2,712,408)</u>	<u>-</u>
				41,837,230	40,988,100
Less current portion				<u>(1,256,823)</u>	<u>(222,783)</u>
				<u>\$ 40,580,407</u>	<u>\$ 40,765,317</u>

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
Notes to Financial Statements
December 31, 2012 and 2011

As of December 31, 2012, the aggregate maturities of notes and bonds payable, including interest, are as follows:

Years Ending December 31,	Promissory Notes		Bonds Payable		Total Debt Service Requirement
	Principal	Interest	Principal	Interest	
2013	\$ 392,822	\$ 91,493	\$ 864,000	\$ 1,436,899	\$ 2,785,214
2014	96,490	80,325	1,783,000	1,420,382	3,380,198
2015	100,326	76,490	1,824,000	1,375,593	3,376,408
2016	95,032	72,477	1,887,000	1,322,836	3,377,345
2017	95,436	68,280	2,141,000	1,266,706	3,571,422
2018	99,826	63,890	1,579,000	1,197,689	2,940,405
2019-23	572,381	246,198	8,623,000	5,157,003	14,598,582
2024-28	716,709	101,868	10,020,000	3,474,083	14,312,660
2029-33	-	-	11,133,000	1,493,421	12,626,421
	<u>\$ 2,169,022</u>	<u>\$ 801,021</u>	<u>\$ 39,854,000</u>	<u>\$ 18,144,611</u>	<u>\$ 60,968,654</u>

Note 6 - Accrued Liability – Developer

The District entered into an agreement with a developer during 2000 regarding the prepayment of municipal and industrial use impact fees. Under the terms of this agreement, the developer agreed to prepay the District \$6,300 per Equivalent Residential Connection (ERC) for 240 ERC's. These prepaid impact fees were recorded by the District as an accrued liability to the developer. During 2004, the developer prepaid an additional \$1,201,612 for the irrigation impact fee or an additional \$9,129 per lot, on the lots still owned by the developer. The developer also prepaid the total impact fee for two other lots at \$16,650 each. These prepaid impact fees were recorded by the District as an accrued liability to the developer.

The District is to repay this liability to the developer through the collection of impact fees from individuals who purchase the building lots from the developer. The outstanding accrued liability to this developer for prepaid impact fees as of December 31 was \$1,554,255 for both 2012 and 2011.

Note 7 - Employee Retirement Systems and Pension Plans

Plan Description

The District contributes to both the Local Governmental Noncontributory Retirement System (Noncontributory System) and the Local Governmental Contributory Retirement System (Contributory System), both of which are cost-sharing, multiple-employer pension plans administered by the Utah Retirement Systems (Systems). The Systems provide refunds, retirement benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries in accordance with retirement statutes.

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah

Notes to Financial Statements
December 31, 2012 and 2011

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953, as amended. The *Utah State Retirement and Insurance Benefit Act* in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board (“Board”) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the various systems and plans it administers. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, UT 84102 or by calling 1-800-365-8772.

Funding Policy

For the Noncontributory System Tier 1 Plan, the District was required to contribute 13.77% of covered salary and wages through June 30, 2012 and 16.04% for the remainder of 2012. The District’s contributions to this system for the years ending December 31, 2012 and 2011 were \$186,370, and \$156,409, respectively. These contributions were equal to the required contributions for each year.

For the Contributory System Tier 2 Plan, the District was required to contribute 11.92% of covered salary and wages through June 30, 2012 and 12.74% for the remainder of 2012. The District’s contributions to this system for the years ending December 31, 2012 and 2011 were \$2,869 and \$0, respectively. These contributions were equal to the required contributions for each year.

In addition, plan members in the Contributory System Tier 2 Plan were required to contribute 1.59% percent of their covered salaries to a 401(k) plan in 2012. However, employers are allowed to make this contribution on behalf of its employees, which the District did in 2012. Contributions to this plan for the years ending December 31, 2012 and 2011 were \$662, and \$0, respectively. These contributions were equal to the required contributions for each year.

All these contribution rates are actuarially determined. The contribution requirements are authorized by statute and specified by the Board.

Note 8 - Related Party Transactions

Summit County, a related party, made loans for working capital to the District from 2000 until 2003 and shared services of an employee from 2002 to 2007. As of December 31, 2012 and 2011, the amount payable to Summit County for these services was \$98,803.

In 2011, Summit County loaned the District \$500,000 in order to prepay debt to help the District meet its coverage ratios in 2011 and 2012; until the rate increases effective in August 2011 and August 2012 were in full effect. The loan was due in full in 2014. However, the District prepaid \$200,000 of this loan in November 2012, and the remaining \$300,000 was prepaid in January 2013.

In 2012, the District entered into an agreement with Snyderville Basin Recreation District (SBRD), which is also a component unit of Summit County created as a service district. The terms of this agreement include the sale of property by the District to SBRD for \$28,000. This \$28,000 is currently held in an escrow account.

If construction of a certain freeway underpass to be funded by multiple governmental entities proceeds, the \$28,000 will be applied towards the construction cost of the underpass. In addition, the District has the option to install an underground waterline casing through the underpass during construction if it contributes an additional

\$100,000 towards the underpass construction costs. The cost of the waterline casing will be paid by the District in addition to the total \$128,000 contribution towards the underpass construction costs.

If SBRD is not able to secure adequate funding from the other entities benefitting from the underpass, the project will be cancelled and the \$28,000 held in escrow will be paid to the District.

Note 9 - Contingencies

The District records liabilities resulting from claims and legal actions when they become fixed or determinable in amount. The District is currently the defendant in one pending lawsuit. Legal counsel is of the opinion that potential claims against the District resulting from such litigation not covered by insurance do not pose a threat of significant liability to the District.

Note 10 - Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. The District is a member of the Utah Local Governments Trust (ULGT), a public entity risk pool currently operating as a common risk management and insurance program for Utah local governments. The District pays an annual premium to ULGT for its general insurance coverage. During 2012 and 2011, the District did not increase any level of insurance coverage, but did add coverage for new infrastructure and equipment. Settlement amounts have not exceeded insurance coverage for the current year or prior years.



CPAs & BUSINESS ADVISORS

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Administrative Control Board
Mountain Regional Water Special Service District
Park City, Utah

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Mountain Regional Water Special Service District which comprise the statement of net position as of December 31, 2012 and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 6, 2013

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Mountain Regional Water Special Service District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Mountain Regional Water Special Service District's internal control. Accordingly, we do not express an opinion on the effectiveness of Mountain Regional Water Special Service District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not yet been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mountain Regional Water Special Service District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Esde Sully LLP".

Ogden, Utah
June 6, 2013



CPA & BUSINESS ADVISORS

Independent Auditor's Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

The Administrative Control Board
Mountain Regional Water Special Service District
Park City, Utah

Report on Compliance for Each Major Federal Program

We have audited Mountain Regional Water Special Service District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Mountain Regional Water Special Service District's major federal programs for the year ended December 31, 2012. Mountain Regional Water Special Service District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on the compliance for each of Mountain Regional Water Special Service District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Mountain Regional Water Special Service District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Mountain Regional Water Special Service District's compliance.

Opinion on Each Major Federal Program

In our opinion, Mountain Regional Water Special Service District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect of each of its major Federal programs for the year ended December 31, 2012.

Report on Internal Control over Compliance

Management of Mountain Regional Water Special Service District is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered Mountain Regional Water Special Service District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Mountain Regional Water Special Service District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Ogden, Utah
June 6, 2013

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2012

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA No.	Award	Disbursements/ Expenses
Environmental Protection Agency (EPA) 2012 Capitalization Grants for Drinking Water State Revolving Funds	66.468	\$ 1,278,000	\$ 743,551

Note A – Purpose of the Schedule

The Schedule of Expenditures of Federal Awards (the Schedule) is a supplementary schedule to the basic financial statements. The Schedule is required by the U.S. Office of Management and Budget (OMB) Circular A-133. Audits of States, Local Governments, and Non-Profit Organizations.

Note B – Significant Accounting Policies

Basis of Accounting

The information in the Schedule is presented in accordance with OMB Circular A-133. The Schedule is prepared using the same accounting policies and basis of accounting as the basic financial statements.

CFDA Numbers

OMB Circular A-133 requires the Schedule to show the total expenditures for each of the entity's federal financial assistance programs as identified in the Catalog of Federal Domestic Assistance (CFDA). The CFDA is a government-wide compendium of individual federal programs. Each program included in the CFDA is assigned a five-digit program identification number (CFDA number).

Major Programs

OMB Circular A-133 establishes a risk-based approach to determining which federal programs are major programs. The federal award tested as a major program was with the CFDA number of 66.468.

Mountain Regional Water Special Service District
A Component Unit of Summit County, Utah
Schedule of Prior Audit Findings and Questioned Costs
December 31, 2012

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditors’ report issued Unmodified

Internal control over financial reporting:

Material weakness identified No

Significant deficiencies identified not considered to be material weakness None Reported

Noncompliance material to financial statements noted No

Federal Awards

Internal control over major programs:

Material weakness identified No

Significant deficiency identified not considered to be material weakness None Reported

Type of auditors’ report issued on compliance for major programs Unmodified

Identification of major programs:

Name of Federal Program or Cluster CFDA number

Capitalization Grants from Drinking Water State Revolving Funds 66.468

Dollar threshold used to distinguish between Type A and Type B programs \$300,000

Auditee qualified as a low-risk auditee No

Section II – Financial Statement Findings

No matters were reported.

Section III – Federal Award Findings and Questioned Costs

No matters were reported.



Independent Auditor's Report on Compliance
In Accordance with the *State of Utah Legal Compliance Audit Guide*

To the Administrative Control Board
Mountain Regional Water Special Service District

Report on Compliance with General and Major State Programs

We have audited the compliance with general Mountain Regional Water Special Service District's compliance requirements described in the *State of Utah Legal Compliance Audit Guide* for the year ended December 31, 2012. The general compliance requirements applicable to the District are identified as follows:

- Public Debt
- Cash Management
- Purchasing Requirements
- Budgetary Compliance
- Special Districts
- Other General Issues
- Impact Fees
- Retirement

The District did not receive any major or nonmajor State grants during the year ended December 31, 2012.

Management's Responsibility

Compliance with the requirements referred to above is the responsibility of the District's management.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance with those requirements referred to above based upon our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the State of Utah Legal Compliance Audit Guide. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements identified above. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the County's compliance with those requirements.

Opinion

In our opinion, the Mountain Regional Water Special Service District, complied, in all material respects, with the general compliance requirements identified above for the year ended December 31, 2012.

This report is intended solely for the information and use of management of the District and is not intended to be and should not be used by anyone other than the specified parties. However, the report is a matter of public record and its distribution is not limited.

Ogden, Utah
June 6, 2013